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January 31, 2019

Ira M. Spiegel, CPA
IMSPIEGEL LLC
1419 East 101st Street
Brooklyn, New York 11236

Re: *In re Citicare, Inc.*, Debtor
Chapter 11 Case No. 13-11902 (MEW)

Dear Mr. Spiegel:

Reference is made to the *Order: (A) Approving Combined Disclosure Statement/Plan and (B) Confirming Third Amended Chapter 11 Plan for Citicare, Inc.*, entered November 4, 2016 [Docket No. 243] (the “Confirmation Order”), and to the Asset Purchase Agreement (the “APA”) executed thereunder between the Debtor, as seller, and Urban Health Plan, Inc., as asset purchaser (“Urban” or the “Purchaser”).

We provide to you, in your capacity as Plan Administrator, Urban’s report of operations corresponding to the second anniversary of the closing of the purchase and sale transaction between the Debtor and the Purchaser under the Confirmation Order and the APA.

The Confirmation Order provides as to the APA in “Ordered” paragraphs 15 - 23 that the Sale is approved according to the terms of the APA, including, in “Ordered” paragraph 23, that “Installment Proceeds” are subject to the provisions of the APA and payable out of the operations of the project (the “Assets”) only.

The APA provides in Section 2 as to “Consideration” for the following:

- (a) “Initial Sale Proceeds” of \$1,000,000.00, which were paid at closing; “and up to an additional” \$2,000,000.00 “to be paid in annual installments of up to \$500,000.00” beginning on the tenth day of the month following the anniversary of the Closing for four years (the “Installment Proceeds”), subject to the limitations and adjustments set forth in paragraph 2(b).”
- (b)(i) “The Installment Proceeds shall be payable only from the proceeds of operations of the Assets by the Purchaser. The Installment Proceeds shall not be an obligation of the Purchaser or its affiliates other than as stated herein....”

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(Emphasis added.) The transaction was also described in the disclosure statement at Section 2.07, on page 19, where the Debtor advises that “the Installment Proceeds will be payable only from proceeds of operating the Assets.”

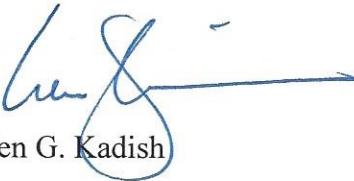
In addition, there was to be a credit (“first to the last Installment Proceeds due,” see APA Section 2(b)(ii)) for certain New York State Department of Health (“DOH”) proceeds and certain grants and award funds (“Grant Funds”). We understand from public filings that as of June 2018, \$303,142.37 in DOH proceeds were received. Please provide a summary of qualifying, offsetting DOH proceeds and Grant Funds received to date, and expected.

We were pleased earlier in the year to share with you, in your capacity as Plan Administrator, and in furtherance of your fiduciary duties to the court and creditors, certain interim financial information (although not Urban’s obligation under the APA), so you would have up-to-date interim information on operations and so that year two results would be received in some context.

We enclose a brief narrative and results of operations for the most recent period to comply with second anniversary obligations of the Purchaser. The results of operations indicate the negative “proceeds of operations” do not support a payment to the Debtor’s estate for year two. Notable is that through Urban’s diligence, and improvements on the project level, the loss experienced in year one has been materially reduced. As stated, the overhead costs of Urban, the umbrella organization, are not charged to the project. They are not accounted for in the books and records of the project. If Urban overhead were charged to, and reflected on the books of, the project, the project would reflect an additional substantial loss.

Thus, in accordance with the requirements of the APA, Urban’s report is enclosed.

Very truly yours,



Allen G. Kadish

Enclosures

cc with enclosures:

Gabriel Del Virginia, Esq.
Paul Acinapura, Esq.

**Urban Health Plan, Inc.
CitiCARES Community Health Center**

Executive Summary: Results of Operation 2/1/18 through 1/31/19

Urban Health Plan, Inc. (UHP) is a New York State not-for-profit charitable corporation licensed by the State to provide primary and specialty health care and behavioral health services under both Article 28 and Article 31 of the Public Health Law. It has recognition by the Internal Revenue Service of exemption from federal income tax under section 501 (c)(3) of the Internal Revenue Code.

On February 1, 2017 it acquired certain specific assets of Citicare, (the "Seller") Inc. including the Seller's leasehold interest at 154 West 127th Street, New York, New York from which it has provided services to the greater East Harlem community as CitiCares Community Health Center. Set forth below is an executive summary of the results of operation at the location for the period 2/1/18 through 1/31/19

Based on the first ten months of operations of the 2018-2019 reporting period (Year 2), CitiCARES shows a Change in Net Assets of (\$368,127). Extrapolating the performance for the first 10 months, CitiCARES is expected to end Year 2 with a net loss of (\$441,752) compared to a profit of \$443,990 as per the original closing projections. Year 2 performance has improved by 50% compared to the first year's performance, which resulted in a net loss of approximately (\$920,235). A copy of the year-one report "Results of Operations" previously provided is attached.

This divergence from initial financial projections is largely attributed to the following occurrences:

1. Year 2 total visit projection for CitiCARES was 16,339. Based upon the actual visits as of the end of the first ten months of operations, it is projected that total visits as of January 31, 2019 will be 10,852. The revenue associated with patient visits in the original closing projections, had been estimated at \$3,212,763 and with the actual lower visit projection that figure will likely be \$1,852,435. The reduction in visits is a result of the cancellation of mental health services, estimated at 4,656 visits for Year 2. This shortfall in visits amounts to \$838,080 in lost revenue.

On opening day (2/1/2017), the center had one Licensed Clinical Social Worker (LCSW) on staff, and one Psychiatrist. The LCSW resigned on July 2017, and the Psychiatrist on September 2017. It is these providers who provide the mental health services. We have actively sought behavioral health providers by recruitment efforts, placement firms, and immigration sponsorship. There is a general shortage of behavioral health providers, and we currently have openings for over 20 behavioral health providers across all of UHP sites.

2. Year 2 total expenses were projected to be \$2,768,773. Based upon the actual for the first ten months of operations, it is projected that total expenses as of January 31, 2019 will be \$2,920,900, a 5% increase from projections.
3. The 2018 roll out of the 340B Federal Pharmacy Discount program at this site made a considerable impact on the initial projections. For the first 10 months of operations, the program generated a 42% gross margin. As of January 31, 2019, the 340B program is projected

to operate with a surplus of \$574,228, with revenues of \$1,371,871 and expenses of \$797,642. These surplus dollars offset the site's operating losses by approximately 55%.

In addition to the site's operating deficit, UHP is also exposed and has assumed an additional \$800,498 in overhead costs allocable to CitiCARES during these first ten months of Year 2 operations. UHP's overhead expense allocation rate is currently at 26% of Total Operating Expenses. None of these overhead expenses are scheduled or reflected in the attached Results of Operation for Year 2. And, no dollars are taken from the CitiCARES Revenue and passed back up to the parent to cover the parent's overhead costs. Overhead costs include the current cost for administrative and support departments (Finance, HR, IT, Medical Affairs, Legal, Call Center, Referral, Care Management, Medical Records, etc.) These overhead costs were assumed by UHP, the parent, as part of its investment in and contribution to serving the medical needs of this East Harlem community.

Were overhead costs to be included in the Results of Operation, the Net Loss for the first ten months of Year 2 would increase to (\$1,168,624). That updated Net Loss is the result of revenues of \$2,730,660, Direct Expenses of \$3,098,786, and Overhead Expenses of \$800,498.

Despite the financial performance over the first two years, CitiCARES offers valuable services consistent with Urban Health Plan's mission. Therefore, Urban Health Plan is committed and intends to continue to invest in this project.

Urban Health Plan, Inc
CitiCARES Community Health Center

Results of Operations
Year 2 - 2/1/2018-11/30/2018

	Actual
Operating Revenue	
Patient Services, Net	\$1,466,701
Health Home	76,995
340 B Program	1,143,226
Miscellaneous	43,738
Total Operating Revenue	<u><u>2,730,660</u></u>
Expenses	
Salaries and Wages	1,054,879
Fringe Benefits	257,815
Occupancy - Rent	592,290
Occupancy - Utilities	101,670
Consultants and Professional Fees	20,414
Contractors	175,942
Medical Supplies	28,364
Pharmaceutical Supplies	68,735
340B Pharmaceutical Supplies	413,777
340B Processing Fees	250,925
Office Supplies	22,306
Insurance	6,487
Telephone	17,711
Equipment Rental and Maintenance	42,157
Transportation	252
Travel and Conferences	2,933
Recruitment and Marketing	13,290
Printing, Postage and Publications	2,439
Staff Training	1,650
Dues and Subscriptions	256
Miscellaneous Exp	4,545
Total Operating Expenses	<u><u>3,078,837</u></u>
Net Income From Operations	<u><u>(348,178)</u></u>
Depreciation and Amortization	19,343
Interest Expense	606
Total Non-Operating Expense	<u><u>19,949</u></u>
Change in Net Assets	<u><u>(368,127)</u></u>

**Urban Health Plan, Inc
CitiCARES Community Health Center**

Results of Operations

Year 1 - 2/1/2017-1/31/2018

	Actual
Operating Revenue	
Patient Services, Net	\$ 1,940,494
Health Home	142,814
340B Pharmacy	50,000
Miscellaneous	62,136
Total Operating Revenue	<u><u>\$ 2,195,444</u></u>
Expenses	
Salaries and Wages	1,332,386
Fringe Benefits	236,444
Occupancy - Rent	694,857
Occupancy - Utilities	119,371
Consultants and Professional Fees	60,286
Contractors	161,972
Medical Supplies	46,970
Pharmaceutical Supplies	77,728
340B Pharmaceutical Supplies	19,333
340B Processing Fees	14,000
Office Supplies	41,270
Insurance	56,952
Telephone	22,612
Equipment Rental and Maintenance	56,810
Transportation	1,078
Travel and Conferences	646
Recruitment and Marketing	24,068
Printing, Postage and Publications	5,130
Staff Training	375
Dues and Subscriptions	7,414
Miscellaneous Exp	19,786
Total Operating Expenses	<u><u>2,999,488</u></u>
Net Income From Operations	<u><u>(804,044)</u></u>
Depreciation and Amortization	116,191
Total Non-Operating Expense	<u><u>116,191</u></u>
Change in Net Assets	<u><u>\$ (920,235)</u></u>